7th INTERNATIONAL CONVENTION

Building Indian Commodity Market for Job Creation and Sustainable Development Goals

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Journal

cpai

Commodity Participants Association of India

(Transforming Rural Economy into Global)

Website : www.commoindia.com

About CPAI

Commodity Participants Association of India (CPAI) is the registered all India association of all the national commodity exchanges and comprising commodities participants of recognized Commodity Exchanges like MCX, NCDEX, NSE, BSE, ICEX, MSEI as also other commodity market participants in the value chain operating across the country. The Association has its Head office in New Delhi and has four regions viz Western region, Eastern region, Northern Region and Southern Region.

CPAI's mission is to work for a transparent, efficient, safe & vibrant commodity derivatives market and creating world-class infrastructure for commodity spot markets. CPAI has a vision of Indian Commodities Market making an impact & influencing world commodity markets along with providing an efficient platform to consumers, producers, traders and the industry.

The basic objective of the association is to work for the cause and concern of its members so that they can do business smoothly and their problems can be discussed with the relevant authorities. It provides a platform to its members to voice their opinion on various policies and operations of doing commodity dealings for its clients. Also it provides professional assistance, guidance and special services to its members to function ethically according to the standard principles and practices laid down by the government, regulator and the commodity exchanges.

By virtue of its proactive role, sincere and logical approach in the development of commodity derivatives markets and the integration of spot market, CPAI has earned recognition and appreciation from the government & the regulator, such that SEBI has included it as a member in its Commodity Derivatives Advisory Committee (CDAC), Risk Management Review Committee (RMRC) and its sub-committees. In addition, CPAI has also been given representation in various committees formed by the exchanges.

CPAI is serving its members and the commodity markets through its head office in New Delhi and four regional offices. The National Executive and four Regional Executive Committees of CPAI comprise sincere and dedicated members from all parts of the commodity business in India. The unflagging efforts put in for transforming rural economy to global by the office bearers of CPAI has helped in reshaping the commodity industry in India.

CPAI works as a team and takes a view after detailed deliberations with members and such considered views are submitted to Government, Regulator & Exchanges and has been receiving high acceptance.

CPAI looks forward towards creating a transparent and safe commodity derivatives market in India to make it an international Commodity hub while transforming our rural economy to global.

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- Views expressed in the articles published the document in are the personal opinion of the respective authors and may not necessarily be the view of the association.
- The articles have been edited for the sake of brevity wherever necessary.

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From the Chief Mentor

Ashok Kumar Agarwal
Chief Mentor, CPAI

Dear members,

The theme of this seminar - "Building Indian Commodity Market for Job Creation and Sustainable Development Goals" could not have been more appropriate and timely as the low rate of growth in India's job market remains one of the biggest concerns and is being widely talked about.

The Honourable Prime Minister has taken it as a mission to double the farmers' income by 2022. This objective can also be seen as an effort aimed in the same direction as majority of the workforce in India is employed in the Agriculture sector.

- Even as we continue to grow at the fastest pace among the world's large economies, new jobs creation not keeping pace remains a big concern. This anomaly of growth without adequate employment generation is worrisome. We need to have a model of growth wherein young, dynamic and aspirational productive population of India gets employment. Ours is a country having young demographics and we have millions of youth joining the job market every year, eager to be productive.

- More than fifty percent of our population is employed in the agriculture sector and therefore agri- commodities as a sector can play an important role in bettering this situation. In order to provide employment to a larger number of people and also for doubling the farmers' income by 2022, following steps would help in a big way:
  - Integrating the spot and derivatives markets for Agri-commodities
  - Single regulator for spot and derivatives markets – currently spot markets are under the purview of state governments although the WDRA Act has empowered the regulator to regulate the warehouses
  - Electronic spot market for farmers to be able to sell their produce at a remunerative price.
  - Adoption of Model APMC Act by states. Currently states have enacted their own version of this law.
  - Augmented capex on warehousing to boost organized storage
  - Removal of levies by APMC if the farm produce is not sold through them
- Commodity stocks which are stored in WDRA warehousing ecosystem should be out of the purview of ECA (Essential Commodities Act) as they are systematically accounted for.
- Globally, commodity derivatives constitute about 22% of the volumes traded on all derivatives exchanges taken together. In India this figure is only about 6 percent (as per the Chand Committee Report on Integration of Commodity Spot and Derivatives Markets). Increase in this volume is a key to providing the much needed liquidity to the markets. If the markets are liquid, instead of relying on MSP to get minimum sustainable prices, the growers / government can make use of option tools at a lower cost to ensure remunerative prices for the growers for their produce. This efficient mechanism will

give them a safety net and an insurance against fall in prices and they would still be entitled to a higher monetary yield for their produce should the prices go up.

- Highly liquid commodities markets where spot and derivatives are closely integrated will help narrow down the gap between what the farmer gets as remuneration for his produce and what the final consumer pays for it. It might surprise many that this difference is currently more than 100% for many commodities. Evolved commodities markets will provide jobs to lakhs of unemployed, enrich the farmers and the consumer ends up paying less for his purchases - all at the cost of the middlemen.

- Another measure, in generating employment and boosting the 'Make in India' initiative, is the development of India as a hub for financial markets for commodities. Here again the employment opportunities for persons having variety of skills is immense and possibilities unlimited as we can attract participants from all over the world generating gigantic volumes. Inexpensive skilled workforce available in India will not only get jobs but will also be a great differentiator making it "Advantage India" as compared to other countries providing similar platforms.

  India as a hub for financial markets for commodities, however, can only succeed if attractive cost of transaction and ease of doing business is available to the market participants in a modern world where intense competition is provided by countries like Singapore and Dubai. A lot has been done by the government in terms of ease of doing business but giant steps need to be taken in terms of cost of transaction and lower incidence of taxes.

- SEBI has allowed Mutual Fund & PMS to invest in commodity markets which will help in deepening and widening the commodity market space and will lead to more liquidity and better investor participation. SEBI has also made it compulsory for all metal commodities like Zinc, Nickel, Copper and Lead to be compulsorily settled in delivery mode. The role of Custodians will get enhanced both qualitatively and quantitatively with these initiatives.

Being the front-end service providers and users, Brokers have a wealth of experience in the field and given a chance are most suited to act as a Custodian. A need is therefore felt for SEBI to review its policies in encouraging and granting registrations to non-bank entities as Custodians. Currently, Banks have a dominant presence in this field being the favoured lot by SEBI in granting registrations.

To conclude, vibrant, liquid, technologically driven, integrated commodity markets have a huge potential for generating employment and augmenting farmers' income. Such a scenario will also help the government contain its deficit as the farmers' distress goes down thereby reducing the subsidy burden on the exchequer.

I would like to take this opportunity to earnestly thank SEBI, the Government, the Commodity Exchanges and all the office bearers and members of CPAI for their continuous support. I also place on record my sincere thanks to all the members of the Editorial Board, Management Committee and the CPAI Secretariat for their strenuous effort in organizing this International Convention.

With best regards,

Ashok Agarwal

From the President

Narinder Wadhwa
President, CPAI

It a matter of great pleasure for me to present the special issue of the quarterly journal of CPAI on the occasion of 7th international convention .

It is a proud moment for me to have the distinction of organising 7th International convention of CPAI in the capacity of National President. I welcome Hon'ble Chief Guest, Guest of Honours, Eminent speakers and all the participants from Commodity and stock broking fraternity to the convention.

At CPAI we had an extremely rich legacy of work done by our past presidents, National Executive and four Regional Executive Committees, comprising of the most sincere and dedicated members from all parts of the country, working selflessly and tirelessly for the up liftment, growth and overall development of the commodity business in India. The unflagging efforts put in for transforming rural economy to global by the office bearers of CPAI can make any organization proud.

Our vision at CPAI is to create business opportunities for member friends and deal with the regulatory challenges faced to them our key focus will be to address the issues faced by Small and medium members of CPAI, Also I will see to it that we gets more in sync with the vision of our regulators SEBI and Government. It is natural that we work in tandem and unison with all of them - for members issues and garner more recognition for CPAI.

Due to the sincere and dedicated efforts of CPAI, SEBI has included representatives of CPAI in its Commodity Derivatives Advisory Committee (CDAC), Risk Management Review Committee (RMRC) as well as in all sub groups. In addition, CPAI has also been given representation in various committees of exchanges and we have been instrumental in designing the commodity products.

Friends! With so much yet to achieve, your prestigious institution like CPAI requires more support, trust and opinions/suggestions of vast majority of Commodity Participants. In the capacity of National President I request all broking fraternity throughout the country to join CPAI and strengthen it so as to jointly strive for the desired reforms and ensure overall development of Commodity Futures Market, its participants and make India a Great Nation with Robust Economy.

On the behalf of CPAI, I wish to place on records appreciation for continued guidance by our mentor Shri Ashok Agarwal and relentless efforts and dedicated contribution put in by the Convention Committee chaired by Shri Shiv Kumar Goel, Shri B K Sabharwal ji, Past president CPAI, editorial team chaired by Mr Jayant Manglik and our secretariat team.

I also thank authors of articles for this journal.I also thank all the sponsors, Exchanges, distinguished guests for their invaluable contribution in making our Convention a Memorable Event.

With Warm Wishes

Narinder Wadhwa

From the Chairman, Editorial Board

Jayant Manglik
Chairman, CPAI-NR &
Chairman, Editorial Board

CPAI's 7th International Convention addresses the key theme of 'Building Indian Commodity Markets for Job Creation and Sustainable Development Goals'. This journal aims to provide more information and knowledge about this with a series of articles from the best known names in the business.

Wide ranging topics which will impact us including water scarcity – which the honourable Prime Minister himself has highlighted recently – to insights and outlook of derivatives markets and e-NWR i.e. electronic negotiable warehouse receipts with a focus on systems, processes and regulation have been covered. There are also commentaries on commodities and the age of digital disruption and on the commodity markets, global factors influencing them, and more.

We try and ensure that the published articles of the leading lights of the industry are widely distributed to all participants in the commodity chain including the Finance Ministry and the Regulator SEBI, exchanges and their members, warehouses, banks, media houses and others.

It is always a pleasure to work with the team to continuously improve on this journal's content and your views are actively solicited for ideas and articles which can be used to benefit people across all spectrums of society through our industry.

Jayant Manglik

From the Chairman, Convention Committee

Shiv Kumar Goel
Chairman, Convention Committee, CPAI

It gives me immense pleasure for having been entrusted the responsibility of organising the 7th International Convention of CPAI.

This 7th International Convention brings together The Ministry, Regulator, Exchanges, experts and analysts from the Commodity Market, Commodity/Stock brokers, Investors, clearing Banks, Risk & Asset Managers and other market participants.

I am sure that all members of the Commodity Broking fraternity would like to hear the views expressed by the eminent speakers participating in the convention and derive benefits out of those.

The Convention is going to deliberate upon a number of important subjects which are crucial for the market. I am hopeful that such discussion by the learned experts would go a long way in further development of this market.

I thank the members of convention committee, managing committee of CPAI, Honorable Speakers of Convention, Commodity & Stock Exchanges & all those organisations who contributed by way of sponsorship and the members of CPAI for their tremendous contribution in making it a big success. The enormous support rendered by the secretarial Staff of CPAI made it possible to organize this Programme as planned and hence rich appreciation.

Best wishes for the success of the 7th International Convention & once again thanks to everybody's cooperation.

Thanking You.

Shiv Kumar Goel


MARKET TIMES


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CHANGING DYNAMICS
IN
COMMODITY DERIVATIVES MARKET


MCX
MCX


Emerging Opportunities
in Commodities Markets
Business Standard
SMART BUSINESS
VIJAY SARDANA
AMIT PRADHAN

Sustainable Development Goals (SDGS) : Leveraging Indian Capital and Commodity Markets to Achieve SDGS

Dr. Abha Wadhwa
Associate Professor
Deen Dayal Upadhyaya College
University of Delhi

Sustainable Development Goals (SDGs) were adopted on 25 September 2015 by 193 countries to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. These goals focus on mobilising efforts globally to end poverty and create a life of dignity and opportunity for all. The realisation of these goals calls for collaborative action by governments, businesses and the civil society, wherein they can jointly foster solutions for a common theme of sustainable development. These goals are the result of an unprecedented consultative process that brought national governments and millions of citizens from across the globe together to negotiate and adopt the global path to sustainable development for the next 15 years.

India along with other countries has signed the declaration on the 2030 agenda for sustainable development thereby adhering to the 17 SDGs and the 169 targets. India has set itself ambitious targets for implementation of

"Just as our vision behind Agenda 2030 is lofty, our goals are comprehensive. It gives priority to the problems that have endured through the past decades. And, it reflects our evolving understanding of the social, economic and environmental linkages that define our lives… The sustainable development of one-sixth of humanity will be of great consequence to the world and our beautiful planet."

— Narendra Modi,
Prime Minister of India

SDGs by aligning it with the national development agenda. This is a big achievement, as now until 2030 the policies developed at the national level are expected to address various SDGs with their overall planning and large investments that need to be allocated for overall sustainable growth. However, achievement of the goals may not be possible with government initiatives alone, it needs a high level collaboration between the government, private sector and the civil society.

The Government of India is strongly committed to the 2030 Agenda, including the SDGs, as evidenced by the statements of the Prime Minister and other senior Ministers at national and international meetings. India's national development goals and its "sab ka saath, sab ka vikas" or "development with all, and for all," policy initiatives for inclusive development converge well with the SDGs, and India will play a leading role in determining the success of the SDGs, globally.

Finance: The Elephant in the Room

The SDGs will have very significant resource implications worldwide. At the global level, total investment needs according to UNCTAD are in the order of USD 5 to USD 7 trillion per year. Total investment needs in developing countries alone could be about USD 3.9 trillion per year, mainly for basic infrastructure (roads, rail and ports, power stations, water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health, and education. Current investment in these sectors is around USD 1.4 trillion leaving a gap of around USD 2.5 trillion and implying an annual investment gap of between USD 1.9 and USD 3.1 trillion.[1]

India's Finance Gap and the Role of Capital Markets

The first level of estimates indicate a financial shortfall of INR 533 lakh crores (USD 8.5 trillion) over the mandated 15 years for achieving SDGs . Per year, on average, this works out to INR 36 lakh crores or USD 565 billion. (Note that this is only the gap in finance to achieve the SDGs, not the overall financial requirement.)

These estimates are a fraction of the global estimates of USD 5-7 trillion per year required for meeting the SDGs according to the UNCTAD 2014 Report. Estimates for investment needs in developing countries range from USD 3.3 trillion to USD 4.5 trillion per year. The SDGs will require a step-change in the levels of both public and private investment in all countries. At current levels of investment in SDG-relevant sectors, developing countries alone face an annual gap of USD 2.5 trillion.[2]

A research by International Research Forum indicates that public domestic finance in developing countries more than doubled since 2002. However, there is a problem of a 'missing middle' where international public support falls faster than the rise of tax and government revenues, leading to a net decrease in total public finance available relative to national[3]. OECD countries collect 34% of their GDP as tax; developing nations collect half this rate.[4]

Role of Capital Markets

It is clear that the public finance alone would be inadequate to meet the gaps being estimated. Hence, there is a need to reassess financial requirements from a perspective of innovative policy strategies to address the core needs of the various SDGs.

Capital markets are one of many tools to help mobilize the large sums of private capital needed to support the SDGs. Capital markets' can offer instruments that meet the risk/return profiles and appetites of institutional investors, enhancing their investment-and in some instances provide the best tool. For governments, bond markets provide a tool for raising the types of funding needed to support SDGs and for managing and helping to create an appropriate macro-environment for long-term financing.

For example, capital Markets are relevant to the mission of ending poverty because they play a key role in the provision of long-term financing for strategic sectors of a country (government, corporates, infrastructure and housing financing and even within certain parameters Small to Medium Enterprise (SME) financing). Secondly, capital markets provide risk management tools for both financial sector participants and end users (including corporates but also users as diverse as agriculture producers). In this way capital markets contribute to economic growth, which in turn can have an impact on the reduction of poverty and increase shared prosperity. At the same time, well developed capital markets can serve as a "spare tire" for the financial sector, enhancing financial stability and reducing vulnerabilities to exchange rate shocks and sudden stops of capital flows.[5]

Role of Commodities Markets

Three of the Sustainable Development Goals of the 2030 Agenda for Sustainable Development appear to be more specifically associated with commodity-dependent developing countries challenges: achieving food and energy security, adding value to commodities and improving the management of natural resources by increasing resource efficiency and renewable energy use.[6]

In India, economic performance is associated with developments in the commodity sector. The linkages between commodity markets, economic growth and development are both strong and complex. Commodity prices provide important economic incentives that influence decisions relating to production, consumption, income generation, investment, trade and employment. They also affect the use of natural resources, such as land and water, and their allocation across sectors.

According to both United Nations and Food and Agriculture Organization, policies that can promote inclusive growth over the next 15 years include economic diversification, expanding the linkages between the commodity sector and the national economy, adopting countercyclical expenditure policies which build commodity revenue buffers during price upswings to use them during downswings, adding value to raw commodities, and investing in social protection, health and education.[7]

Doubling Farmers' Income

Small and marginal farmers constitute nearly 80% of all Indian farmers. More than 90% of them are engaged in rain-fed agriculture. It is therefore crucial to raise farmers' income by adopting different strategies.

Indian Government has set a target of doubling of farmers' income by the year 2022 and a comprehensive plan is being implemented by the authorities as regards the same.

The Government is aiming to reorient agriculture sector by focusing on income centeredness. In order to realise net positive returns for the farmer. Schemes such as Soil Health Card (SHC) scheme; Pradhan Mantri Krishi Sinchayee Yojana (PMKSY); National Agriculture Market scheme (e-NAM); Pradhan Mantri Fasal Bima Yojana (PMFBY); National Food Security Mission (NFSM) are being promoted and implemented in a major way by the authorities. All these schemes are implemented to enhance production and productivity of agriculture and thereby enhance income of farmers.

Case Study : Integrated Marketing and Better Prices for Farmers in Karnataka

Online trading in agricultural commodities has proved to be a successful model promoted in the state of Karnataka. The Unified Market Platform (UMP) has led to better price realization for farmers as compared to previous years. More than 1.4 million farmers had registered on the UMP till April, 2016 and benefitted from a rise in prices due to the introduction of online trading in 107 Agricultural Produce Marketing Committees across the state. There was a significant increase in the prices of groundnut, pigeon peas, chick peas and turmeric, among others.[8]

Conclusion : India and the SDGs

India has been effectively committed to achieving the SDGs even before they were fully crystallized. A noteworthy example is the Pradhan Mantri Jan Dhan Yojana (PMJDY) which is the world's largest financial inclusion programme.

Further, special efforts have been made to invigorate the federal governance structure of the country through cooperative and competitive federalism. State Governments are playing a prominent role in advancing the national development agenda. Policies such as the Swachh Bharat Abhiyan (Clean India Movement) and skill development have contributed towards shaping relevant policy decisions at the national-level.[9]

To address the issue of financing the SDGs, there is a need to assess and acknowledge the role financial markets for filling the funding gap. Innovative finance through structures such as guarantees, social insurance, social impact bonds and impact investments, holds the key to unlocking private investment capital for the SDGs.

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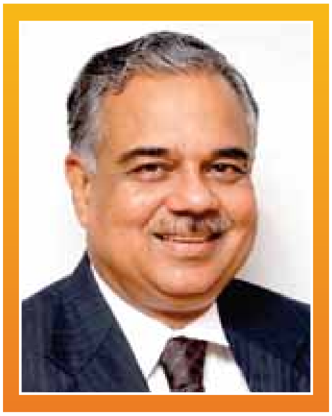
The Burgeoning Threat of Water Scarcity

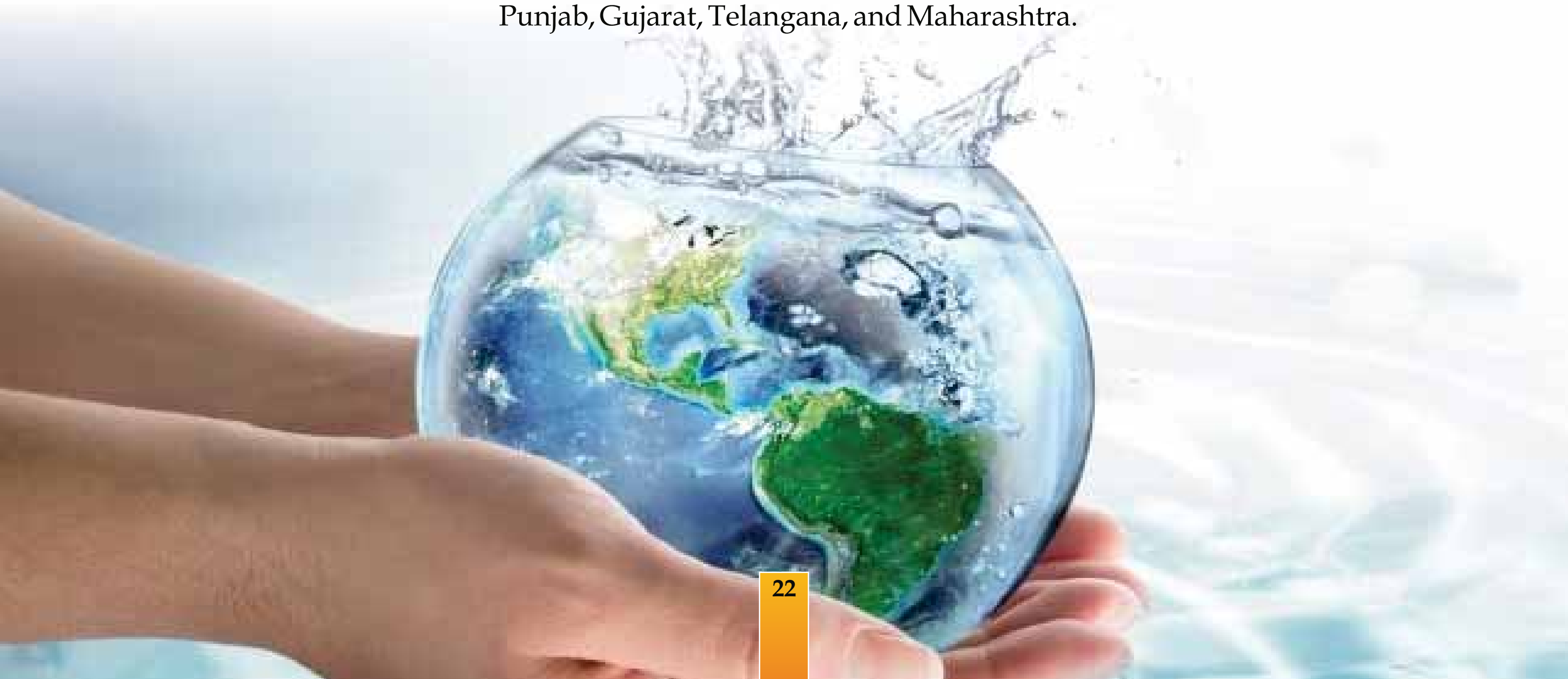


Sanjay Kaul
MD & CEO
NCML

The development of El Nino conditions and the resultant adverse weather signals for the coming monsoon has brought the attention of the burgeoning threat of water scarcity on top of the discourse on Indian agriculture. Water scarcity has been growing as the frequency of years with below normal rainfall has been increasing with each passing score of years (20 years). In 1998-2017, there were 12 years of below normal rainfall which is the highest recurrence of below normal rainfall in a score of 20 years since 1938 (see table below). This is, perhaps, a reflection of the climate change impact and the country cannot ignore these developments any longer.

Timeline	Number of Years		
	Below Normal Rainfall	Normal rainfall	Above Normal Rainfall
1998-2017	12	8	0
1978-1997	11	5	4
1958-1977	5	7	8
1938-1957	3	5	12

The alarming deterioration in underground water levels has compounded the situation of deficient rainfall and escalated the threat of water scarcity. The Central Ground Water Board has reported that the water level in 61% wells of the country has declined in 2016 from the decadal mean level of 2007-2016.The maximum decline has been observed in Rajasthan, Haryana, Punjab, Gujarat, Telangana, and Maharashtra.



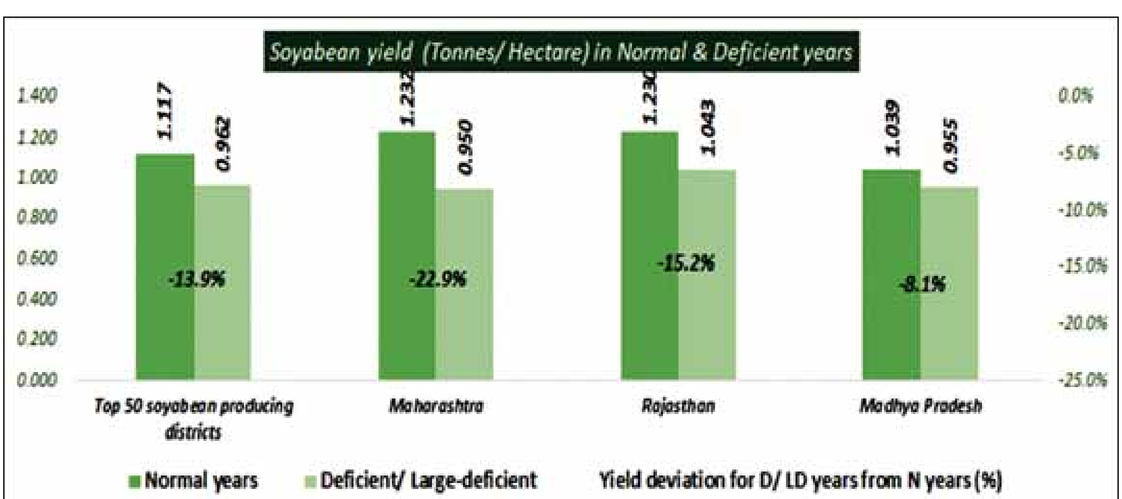
Below normal rainfall in the country is characterised with a specific distribution of rainfall where in the risk exposure of few regions will be higher compared to others. 47% of districts of the country are likely to witness deficient to large deficient rainfall whenever India receives below normal or deficient rainfall. The distribution of these volatile districts is not uniform among the States. Around 80% of districts of Uttar Pradesh and Haryana are likely to receive below normal rainfall when the country receives below normal rainfall. Fortunately, agriculture output from these States is not under any major threat in the short term as nearly 85% of the net sown area is covered with an irrigation facility and therefore adverse impact of deficient rainfall is prevented. On the contrary, states of Madhya Pradesh, Rajasthan, Gujarat and Maharashtra face more threat from deficient rainfall as 45 -55% of districts of these have high likelihood of receiving deficient rainfall and irrigation coverage in these States is low.

Incidentally, Madhya Pradesh, Gujarat, Maharashtra and Rajasthan are the largest producer of oilseeds in India. These States produce around 77% of country's oilseeds (as per 2016-17 statistics). Oilseed production is more vulnerable than food grains because only 23% of area under oilseeds in these four states is covered with an irrigation facility.

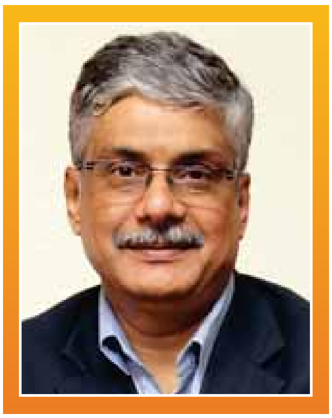
It is hoped that the Government will address this priority area with the earnestness required.

Soybean is the main edible oilseed crop during the Kharif season. Out of major 50 districts which contribute to around 86 % of the total Soybean production, 45 districts are in Madhya Pradesh, Rajasthan and Maharashtra. Impact of deficient rainfall on production of Soybean can be clearly seen in the adjacent Table. 17 out of these 50 districts are likely to receive deficient rainfall if country receives below normal rainfall. In a year of deficient rainfall, Soybean's yield declines by 14% in these 50 districts. The highest impact is observed in districts of Maharashtra with 22% decline in yield of Soybean.

Agriculture uses more than 70% of India`s fresh water and hence there is greater need for rational use and adoption of better management practises of efficient use of water in agriculture. The threat of deficient rainfall is increasing with time and the year 2019 is expected to witness below normal rainfall on the back of the El-Nino phenomena. There is urgent need to develop an agriculture water conservation policy with a decentralized implementation mechanism to address key issues like efficient management of means of irrigation, overutilization of ground water through subsidised electricity along with linking cropping patterns to water requirement of the crops.



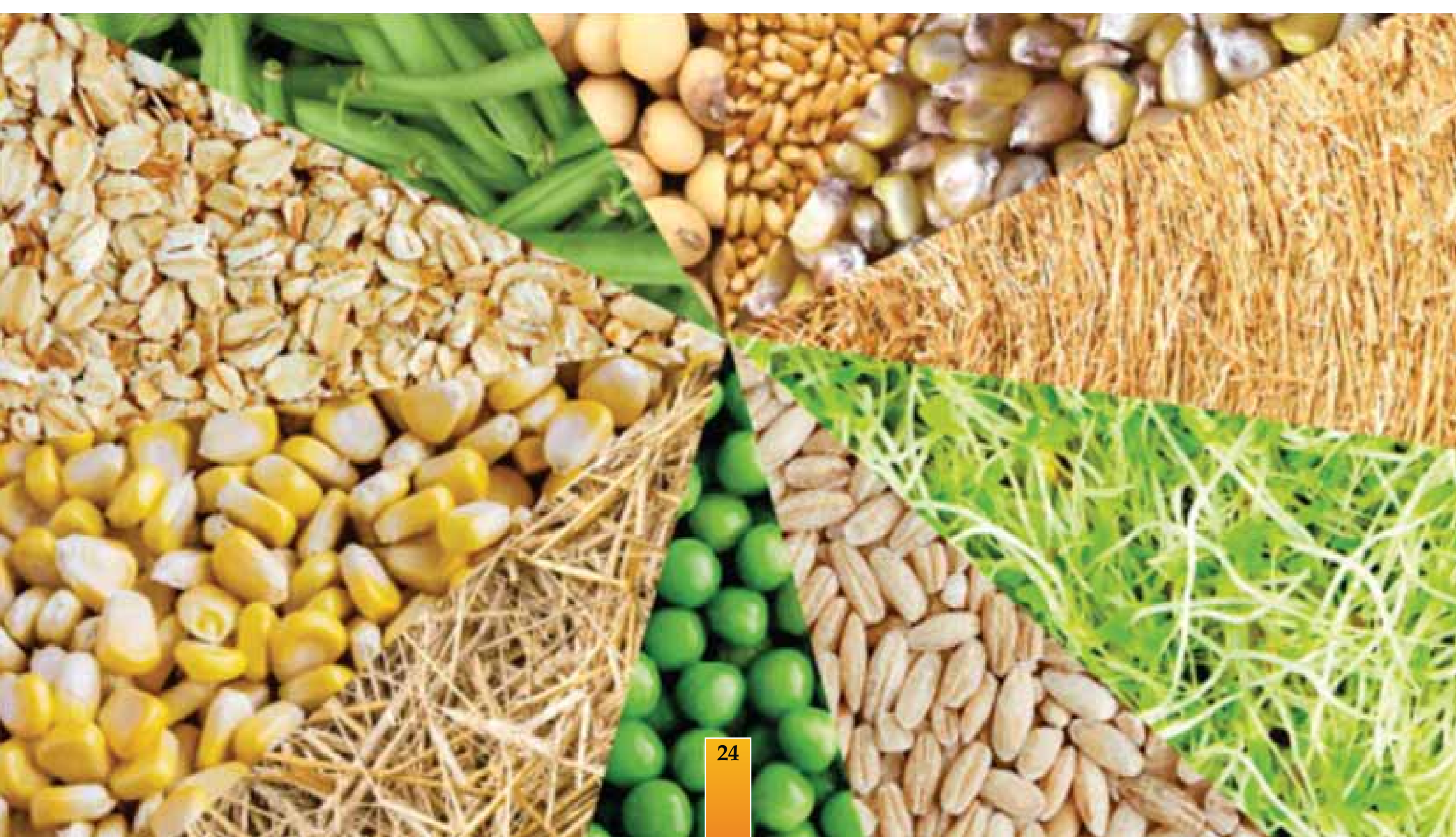
Agri-commodities : Major Reforms Laying the Foundation of India's Future Growth



Vijay Kumar
Managing Director & CEO
NCDEX

India has been one of the fastest growing economies in the world during the last few years backed by its robust private consumption, public investment and ongoing structural reforms on various fronts. Further, according to a Harvard University report released in May 2018, India tops the list as the fastest growing country for the coming decade too. Commodities, being raw material to the industry, are directly linked to economic growth and development of the country. Any change in commodity prices impact the prices of all other assets like equity, bonds and currency. Commodity price instability often has a negative impact on economic growth, financial resources, and income distribution. Also, there exists a complex relationship between commodity prices and other parameters of the economy. For example, in the case of agri-commodities, price increases raise inflation at the macroeconomic level but increase the incomes for producers.

India is one of the largest producers and/or consumers of a large number of commodities. In case of Agri-commodities, most of them are produced in certain season viz., Kharif or Rabi and in climatic conditions specific to



certain location/states. However, these commodities are consumed throughout the year and across the country. This very nature of commodities make the producers as well as consumers of these commodities prone to price risks. These risks need to be identified and addressed.

India also has a long history in trading of commodities and commodity derivatives. Commodities traded on the Exchanges range from raw materials to intermediate or semi-processed goods. The prices of these commodities are set by market forces i.e., demand and supply. Therefore, the commodity derivatives market provides an efficient platform for price discovery and price risk management.

Commodity market has witnessed numerous reforms during recent decades. These reforms can be divided into two parts. One, reforms related to physical or spot market and two, reforms in the derivatives market.

A. Major Reforms in Physical/Spot market

The government envisioned to double farmers' income by 2022. However, the consecutive years of normal rains in 2016-17 and 2017-18 resulted in a record production of not just foodgrains but also horticultural crops. This, in turn, resulted in an unprecedented fall in farm gate prices, denting farm incomes which forced the government to step up purchases from farmers at support prices. To overcome the farm distress, the government came up with various strategies for different aspects of the farm sector - from marketing and value addition to risk management and sustainability. The strategies encompass higher productivity, cost efficiency and enabling the farmer to capture the maximum value of their produce. Few of the major reforms in the physical market are National Agriculture Market, Pradhan Mantri Fasal Bima Yojana, etc.

a. National Agriculture Market (eNAM)

Based on the success of Karnataka Model, a joint initiative of NCDEX e-Markets Limited and Karnataka government, National Agriculture Market (eNAM) was proposed by the central government in the Union Budget 2014-15. This envisioned to integrate 585 mandis (around 8 per cent of the nearly 7,500 regulated markets) to an online platform with an aim of freeing the farmers from the clutches of middlemen by ensuring a remunerative price for their produce. This further aimed at promoting uniformity in agriculture marketing by streamlining procedures across the integrated markets, remove the information asymmetry, and promote real-time price discovery. Currently, eNAM has enrolled all of its targeted 585 mandis across 16 States and two UTs. Over 1.3 crore farmers and 1.2 lakh traders are already registered on it. Now the government is planning to link all the 7,500 APMCs as well as 14,500 temporary mandis such as the weekly and bi-weekly markets (haats) across the country with e-NAM by 2022. However, challenges such as the development of uniform physical parameters for commodities, inter-state trade, and seamless movement of goods across the country need to be addressed to realise the true potential of eNAM.

b. Pradhan Mantri Fasal Bima Yojana (PMFBY):

In order to provide insurance coverage and financial support to the farmers in the time of crop failure due to natural calamities, pests & diseases, and to stabilise farmers' income, Pradhan Mantri Fasal Bima Yojana was introduced by the government in February 2016 on the theme of "One Nation - One Scheme". In PMFBY, a farmer needs to pay a flat 2% premium, while the rest is paid by the central and state governments. The allocation to the scheme has more than doubled to Rs 13,000 crore in 2019 from initial INR 5,500 crore for 2016–17. PMFBY incorporates the best features of all previous schemes and at the same time, tries to overcome shortcomings / weaknesses of previous schemes. The government is now aiming to increase the number of insured farmers from the present 20% to 50% in the next two to three years.

c. Agricultural Credit

Credit remains a critical input to achieve higher agricultural output. Timely institutional credit to farmers helps delink them from non-institutional sources where they are compelled to borrow at much higher interest rates. In 2018-19, Rs 11 lakh crore was allocated towards the same.

B. Major Reforms in Commodity Derivatives Market

While commodity derivative markets have been experiencing ups and downs since its inception, the focus from the government and the regulators have helped in its strengthening and bringing a degree of stability to this market. In order to make commodity markets more viable by improving liquidity and transparency, and to enhance its reach, numerous reforms have been introduced in recent years:

a. New Commodity Exchanges

One of the major reforms commodity derivatives ecosystem has been allowing the security Exchanges to offer trading in commodity derivatives and vice versa. With this, National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), the two biggest domestic equity Exchanges, have started their participation in the commodities market. Currently, NSE offers commodity trading in Gold, Silver and Crude oil whereas BSE offers trading in Gold, Silver, Copper, Crude oil, Cotton, Guar seed and Guar gum. On a positive side, this development has created arbitrage opportunities in commodities with similar contract specification traded on different bourses. However, commodities still being a thin market, bourses might have to compete for the liquidity in common commodities.

b. Commodity Options and Commodity Indices

Commodity options trading was allowed by the regulator in 2017. Following this, Options trading in many commodities such as Guar seed, Soybean, Chana, Gold, Crude oil, Copper etc. was introduced by commodity Exchanges. Commodity Options in Agri-commodities provide an opportunity for farmers to take advantage of the commodity derivatives market without entering into the risk of Mark to Market obligations. Farmers can secure a base price of their crop well in advance using Put Options by paying a nominal one time premium costs.

In June 2019, SEBI allowed the introduction of futures on commodity indices. Commodity Indices will facilitate mutual fund and institutional participation in the commodity derivatives market. This, in turn, will further increase the width and depth of the market and improve the efficiency.

c. Institutional Participation

In order to strengthen the commodity derivative market, the regulator SEBI has allowed mutual funds to participate in commodity derivatives except in 'Sensitive Commodities. However, as a precautionary step, investing in physical commodities except in 'Gold' through Gold ETFs is barred for mutual funds as of now. Mutual fund schemes are also constrained to have net short positions in exchange traded commodity derivatives. Further, Category-III alternative investment funds and foreign companies with exposure to Indian commodities not having a presence in India have also been allowed to trade in commodity derivatives. All these initiatives will definitely bring in the efficiencies in the system.

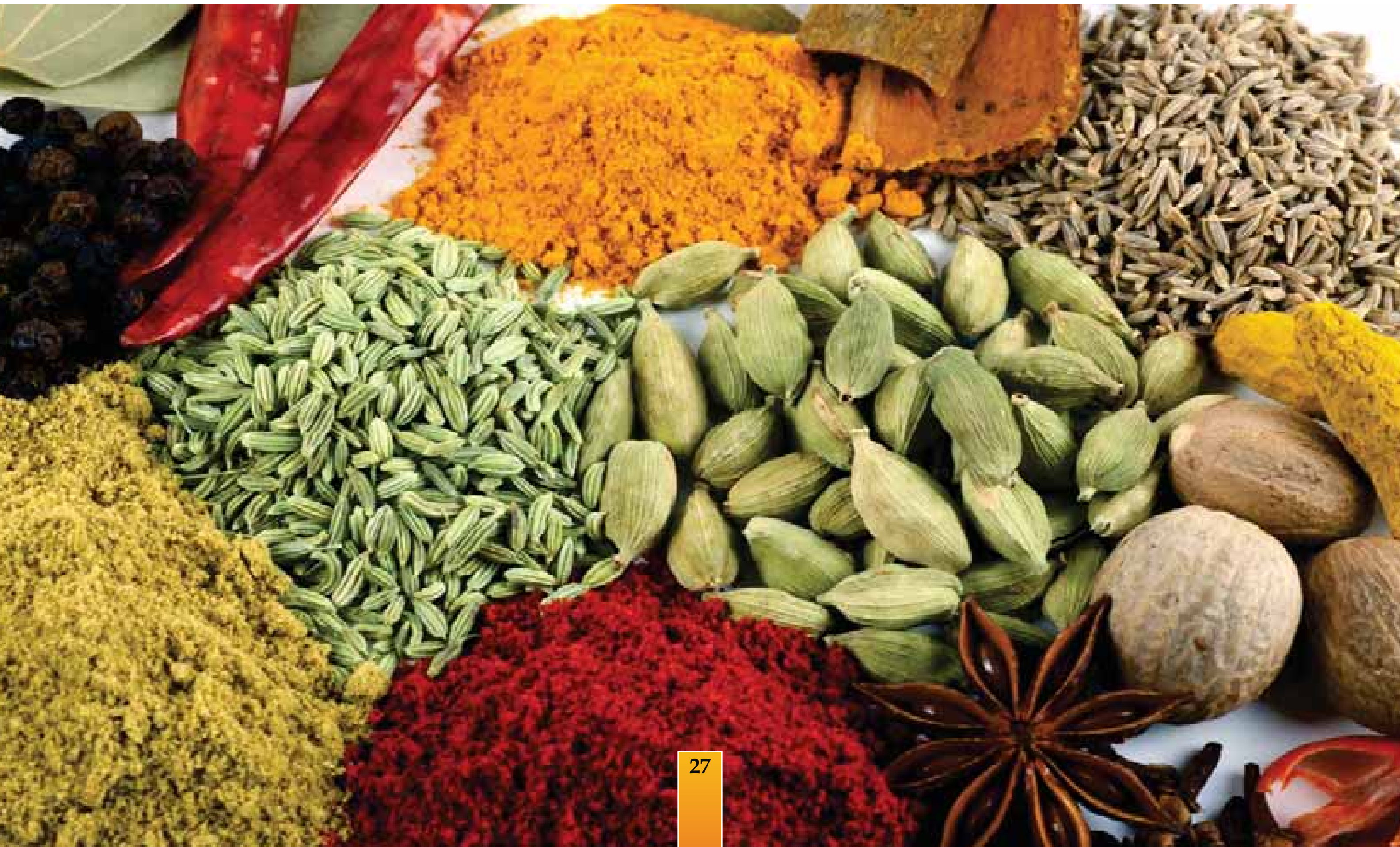
d. Farmers Participation

Farmers stay at the bottom of the Agri supply chain and are most susceptible to price risks. However, continuous efforts of Exchanges towards creating awareness among them has produced encouraging results. Exchanges have been able to play a crucial role in providing farmers access to the new age markets and thus helping them take informed decisions and earn better returns for their produce. Farmers across the country have started changing habits of selling all their produce in traditional mandis and are now increasingly getting connected to regulated markets. During the last three and a half years, National Commodity and Derivatives Exchange Limited (NCDEX) alone has been able to connect with 231 farmer producer organisations (FPOs) across 13 states representing over 2.6 lakh farmers. Of them, 93 FPOs have already used commodity futures to hedge and lock the prices of their produce well before the commencement of harvesting seasons. These FPOs have also started using their produce kept in warehouses as collaterals for easier access to institutional credit.

Road Ahead

Commodities are essential inputs for the manufacturing sector. Expanding the linkages, both forward and backward, between the commodity sector and manufacturing sector can promote robust agricultural growth. Commodity derivatives market also plays a big role in developing and strengthening these linkages. Apart from creating an ecosystem for better price discovery, price risk management, land reduced information asymmetry among market participants, it also acts as an enabler for infrastructure development and employment generation.

Various ongoing reforms and enabling policies in the commodities sector are expected to develop the market holistically by increasing the synergies among the farmers, market participants, Agri value chain participants, government agencies, Exchanges and the regulator. These reforms will help commodity markets, both physical and derivatives, to augment the future growth and development.



Monsoon and its impact on the Agri Sector

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Introduction

Agriculture forms the backbone of the Indian Economy constituting nearly 15% of GDP. Employment in agriculture (% of total employment) in India was reported at 42.74 % in 2017, according to the World Bank collection of development indicators. Not just the Indian economy but also the growth of the rural sector is dependent a lot on this sector. The Government thus focusses specially on this sector – keeping an eye on the production aspects and the price aspects.

Prices of agricultural commodities are very fluctuating and depend mainly on the demand and the supply factors. Even as demand grows at a moderate pace every year, it is the supply factor that mainly determines the price trend. A falling production leads to higher prices, higher inflation - consequently leading to a fall in GDP growth. A rising production is good for the economy and helps control Inflation, but may not be good for the farmers who get lower remuneration for their produce. The Government

necessitates corrective measures in such cases. However, it will always want production to rise because it helps in not only meeting domestic demand, but also helps the country earn foreign exchange, as most items are exported. India is generally the largest producer, exporter and consumer of many agri commodities.

Monsoon and its Importance

For a rising production, conditions need to be favorable for that. Here comes the most important aspect for that – Monsoon. The major Indian crop is that of Kharif – summer sown crop. Most of these crops are sown just after the rains in the regions I.e. after the Monsoon arrives. A good rain assists in better crop sowing leading to prospects of higher crop area, better crop productivity and a resultant higher production. Timely arrivals of the Monsoon rains are also important as that helps in timely sowing, higher crop area and better crop productivity and production. Too much rains or floods on the other hand, have negative impact on the crops as they lead to crop damage. Too less rains too are harmful for the crop as we have noticed in cases of droughts. With the reach of irrigation still not at very high levels in most parts of the country, the importance of Monsoon rains remains very critical for the agricultural sector, as the livelihood of farmers are still dependent mainly on that. Timely arrival of Monsoon, its satisfactory progress towards the entire nation, proper distribution and its timely exit from India – all these are critical factors that affect the Indian crop production. Higher crops generally lead to better remuneration for farmers and vice versa.

Monsoon Predictions and El-Nino

Amount of monsoon rains has always fluctuated throughout the years and there is no fixed pattern. Thus, if there is normal monsoon in a particular year, it does not necessarily mean that it will remain so in the subsequent year. Thus its determination is very difficult and most agencies – be it Indian or the International agencies find it extremely difficult to analyze it. Even as various factors emerge that determine the Indian monsoon, the most important one is the El-Nino and the La-Nina factors that affect Indian Monsoon. The former condition generally has adverse impact on the Indian Monsoon while the latter generally has a positive influence.

The oceanic and atmospheric phenomenon known as El Nino occurs in the Pacific Ocean causing weather disturbances of varying severity.

In a normal year, water is warmer in Western Pacific Ocean (towards Asia). They are cooler on the Eastern Pacific region (along coast of Peru and Ecuador). The air pressure is low over the warmer waters (towards Asia) where moist air rises, resulting in clouds and heavy rainfall typical of south eastern Asia.

During El Nino, the sea temperature along East Pacific is much warmer. The Air pressure is low there. This sharply narrows the difference between the western and eastern Pacific temperatures, making the cycle weaker. As a result, the region of low pressure moves away from Asia and towards South America.

Result: The Indian monsoon is affected by this movement of low pressure air away from the Asian region. Rains and winds over India are lower than normal. Sowing of key summer crops such as cotton, soya bean, pulses and coarse grains are delayed, resulting in lesser production.

Not all El Nino years led to a drought in India. 1997/98 was a strong El Nino year but there was no drought. On the other hand, El Nino in 2002 and 2009 resulted in droughts.

Monsoon Expectations This Year

This year has been concern for the Indian Agricultural sector on 2 fronts:

There was initially a declaration by most International agencies of a possibility of emergence of El-Nino, which could have adverse impact on the Indian Monsoon. The same apprehensions were noted by Indian Private Meteorological forecaster, Skymet, which put the initial estimate of the Monsoon at 94% of LPA (Long Period Average), which categorized the Monsoon in the "Deficient category". However, Indian Meteorological Department (IMD) has put the seasonal (June to September) rainfall at 96% of the LPA with a model error of ± 5%. Though this falls in the "Normal Category", it needs to be noted that any DOWNWARD subsequent revision for the rains by IMD will bring it to the Deficient Category. It also mentioned that weak El-Nino conditions are likely to prevail during the Monsoon season.

The next concern for the Agri sector was prospects of a delayed arrival of Monsoon on the Kerala coast. IMD has predicted a DELAYED arrival of Monsoon over Kerala Coast on June 6 vs normal date of June 1. Skymet too had predicted a Delayed arrival date of June 4.

The sectoral distribution as mentioned by Skymet too points to a deficient rain in critical Agri growing areas of Central and North-West India. Further report on the Sectoral distribution from IMD is awaited.

Any delayed arrival of Monsoon rains could lead to delayed and lower sowing and result in delayed harvesting with chances of lesser productivity and lower production. The summer season sowing for many crops generally start after the first showers are received in the growing regions. Any delay in the arrival adversely affects the sowing process leading to problems for farmers, who are forced to shift to other crops that require less rains. Lack of irrigation facilities in many areas aggravates the problems further.

Anticipations of a weak Monsoon leads to apprehensions of a falling production. This leads to a surge in Agri prices. However, the overall sentiment varies a lot starting from the day Monsoon hits the Kerala coast, its progress towards the Central and North-West India and finally its exit from India. Even if rains are normal, any excess/deficient rains in specific areas would affect the crops being sown in those regions. Thus sectoral distributions of rains are important. This year, the reports are not favorable for the Central and North-West parts of India, where most kharif crops are grown. In the recent weeks, we have seen the impact of these reports as agri prices start firming up. The main impact would however be noted in June when the things would be more clear that they are now as the Monsoon arrival and its progress pace keeps changing. Any slowdown in its progress towards the Central and North-West and Central India could keep sentiments firm.

Expected Impact of Monsoon this year on Agri Prices

If we consider the impact of a possible weak monsoon on the agricultural prices, it would be Bullish. However, even here, a few things need to be noted before we make the final analysis. Firstly, record food production over last 2 years has kept stock levels at higher levels. Very high import of Pulses during the last 2 years has resulted in falling prices for the commodity group. Thus even as some adverse reports on the production front could be noted this year – resulting in some recovery in prices, the overall impact on prices may not be too high. Thus, for most crops, where stock levels have been on the moderate to higher levels, even in case of lower production, only a moderate recovery in prices can be anticipated.

On the other hand, higher stocks have ensured a falling price trend for most agri commodities over last few months. The prices are thus, at lower levels and market sources anticipate further fall in prices to be limited, as they may not be sustainable. Lower arrivals at these levels may limit further fall. Again, higher demand on the domestic and export front in coming weeks could support prices. Additionally, a firm Dollar vs Rupee has been beneficial for exporters and support prices. Finally, a rising Crude Oil price too supports the market sentiments for the agri sector, with expected rise in Petrol/Diesel prices having some bullish impact on the agricultural market. With no new major crop over next few months, limited arrival too is expected to support prices.

To sum up, higher stocks in markets may not enable agri prices to move up significantly, with Government likely to take all steps to control prices. However, the bullish impact from an expected near normal to weak Monsoon (as predicted till now) could ensure prices stabilizing at these lower levels. If Monsoon indeed turns out to be weak in June and subsequent months, agri prices are likely to bottom out from these lower levels and could well show a medium to long term bullish trend. The rise in price will be moderate however.

Agricultural NBFCs : Transforming agriculture and allied sectors through finance

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Agriculture and its allied sectors are the backbone of the global economy. These sectors play a crucial role in providing food stocks to nurture and energise the world.

With a growing population, the agriculture sector needs to keep pace with the growing food demand. This can be done either by increasing acreage or increasing productivity of existing farmlands.

In India, there is a need to work towards increasing the production capacity as a scope for the addition of new farmlands is limited. This can be done by addressing some of the biggest issues of the farm sector like outdated farming practices, farm losses, and insufficient logistic and storing facilities amongst others.

Access to finance is among one of the major challenges for the Indian farm sector. According to the government's data, barely 60% of Indian farmers have access to bank finance and this figure is even lower at 15% for small and marginal farmers. Despite significant growth in farm credits and enhancement of agricultural credit target in the subsequent union budgets, accessing funds for working capital requirements in the agriculture and

allied sectors is still a major challenge in our country. This is primarily due to the gap between institutionalized banks, farmers and people engaged in associated activities especially in the rural areas.

To bridge this gap, RBI regulated agriculture focused Non-Banking Financial Companies have emerged. These NBFCs provide financing on a diversified basket of agriculture commodities against warehouse receipts (WR) to farmers, Joint Liability Groups (JLGs), Small & Medium-sized Enterprises (SMEs), commodity traders, food processors, exporters, importers and other Agri intermediaries across the country.

In India, agriculture and allied sectors continue to face immense constraints in accessing formal financial services. It is estimated that only 30 percent of the total agriculture demand in India is met by institutional credit. Banks are faced with certain shortcomings when it comes to collateral, valuation and other such regulatory requirements.

The advent of agricultural NBFC's has not only ensured easier access to financing at attractive and competitive commercial terms for seeds and fertilizers to farming equipment and machinery; they have also eased the load on institutionalized banks as the erstwhile primary lender to farmers. This second revolution is bringing fast and affordable credit to those who traditionally found the doors of finance closed to them — a category of borrowers who are new-to-credit (NTC).

Agricultural NBFC's extend credit facility using the crop as collateral and against storage receipts of agriculture commodities. These NBFCs score over banks due to their ability to sanction and disburse the loans quickly and efficiently. The hassle-free processes with minimum paperwork give these firms a definite edge over banks and lead to customer satisfaction. Robust internal processes, a risk management mechanism, use of latest technology and taking current market rates as a basis for disbursement has further added to the popularity of agricultural NBFCs as it is relatively cheaper and convenient to avail loans from such institutions. Their approach is starkly opposite to the brick-and-mortar branches and boots on the ground approach of banks. This helps them in keeping their operating expenses low, despite the lower cost of funds of banks' due to access to public deposits.

Agricultural NBFCs can act as a bridge between the farmer's credit requirements and the banks need for a more secure lending environment. These institutions act as an additional safety net, raising capital from banks and passing it on as loans to the farmers. The flexibility of NBFCs to customize product offerings to suit the varying needs of farmers and expedite loan disbursement to meet pressing requirements has made such institutions enviable part of the agriculture financing eco-system.

Agricultural NBFCs are growing steadily for the past few years and so is their contribution to the agriculture sector and the economy. These NBFCs are acting as an important catalyst transforming the agriculture sector by not only providing small and medium-term credit access to small and marginal farmers but also loans for the purchase of agriculture tools and machinery. This has empowered farmers to invest in better seeds for higher yield and better protection of standing crops as well as logistics and warehousing.

Smartphones coupled with a tech-savvy millennial population are bringing large numbers of the hitherto unserved or underserved into the mainstream of finance and building distribution funnels at a speed not seen earlier. Realizing this, agriculture focused NBFCs are increasingly relying on technology to reach and service a larger customer base. These firms are adopting technological innovations at all stages of lending to enable optimization of workforce and workflows,

enhance turnaround time, enable educated and smarter decision-making to ensure availability of credit to farmers at the best rates at all times. These firms are also embracing new-age concepts of FinTech to achieve cost-effective collection of KYC documents, real-time processing, real-time credit appraisal, reduce operational risks, improve operational efficiencies, reduce operational cost, back-office integration and scalability.

Agriculture focused NBFCs have come up with a unique risk-based technology platform where based on the variety, grade, liquidity and volatility in the commodity, the loan values are appraised and margins calculated on a real-time basis. The technology significantly reduces loan processing time and provides a dynamic and higher loan to value (LTV) ratio to the borrowers with least operational hassles. The platform uses the latest eKYC and eSign processes wherein using Aadhar the borrower is immediately authenticated by the UIDAI database. This results in a significant reduction in the number of documents to be taken from the borrower besides eliminating the need for fixed income document proofs, which is a major deterrent for small and marginal farmers.

In India, 10% of produce goes waste due to inefficient or insufficient storage. The losses in commodities, whether perishable or otherwise is attributable to both lack of knowledge of handling and storage practices. To address this issue, agri-focused NBFCs are increasingly relying on new-age warehouse management firms that follow scientific storage practices to curb crop storage losses. Such practice cover a gamut of inspection services for agri-produce for quality monitoring besides prescribing curative steps in case crops are found to be damaged. The process is self-perpetuating and is based on a workflow mechanism that not only prompts but detects anomalies and then implements pre-decided algorithm based solutions. A study conducted by industry body FICCI found that by using this real-time Process Management System storage losses could be reduced from 10 percent to a minimal 0.5 percent irrespective of infrastructure, crop or geographic location of the crop.

In India, a majority of agriculture NBFC's were initially set up by the various agricultural produce marketing companies and logistic & warehouse providers as a natural extension to their business to cater to existing clients. These captive units have now grown and expanded their business to successful standalone businesses in themselves. It is anticipated that due to the focused and specialized nature of the business, agri-NBFCs could create a niche for themselves in lending to the entire value chain of the agriculture sector and the success stories of existing entities will attract more firms and investors to invest in this growing segment. The success of agricultural NBFCs can also be gauged from the diminishing farmer's reliance on moneylenders which eventually lead to farmer getting caught in a web of debt.

Despite the key role played by Agriculture focused NBFCs in transforming the agriculture sector in India, these firms are forced to offer higher priced loans in comparison to banks. Moreover, their borrowings from banks do not qualify as priority sector credit under RBI Norms, even if this money is used exclusively for agricultural lending. These NBFCs are also not eligible for seeking protection of the Credit Guarantee Fund (GSF) set up under the Small Farmers' Agribusiness Consortium (SFAC) to provide comfort to lenders reaching out to FPOs. This calls for policy reforms to enable agricultural NBFCs to access low-cost capital to extend farm credit at competitive rates.

The role of NBFCs in transforming the agriculture sector is increasingly becoming critical as demand for food items continue to evolve with changes in our food habits. We, therefore, must make our farming practices more versatile to meet emerging needs and agri-NBFCs can be the gateway to access funds required to modernize the sector.

US-China Trade War : Why India is Concerned

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How it started after all………

It is again a business tussle between two leading global economies i.e. China and the US. In response to the US government's tariff hike on Chinese goods, China has retaliated by announcing that it would impose higher tariffs on $60 billion of US goods from June 1. This has enhanced the risk of slowing the economic growth worldwide. Recalling the events, the United States' decision to hike tariffs to 25% on $200 billion worth of Chinese goods is seen as an adverse move to curb goods trade in more than 5,700 product categories, eventually sparking another round of tariff wars between these two nations.

Problems in this context started emerging a year ago, ever since Trump imposed heavy tariffs on imported steel and aluminum items from China in March 2018. China on the other hand, responded by imposing similar tariffs over American imports, billions dollars' worth. The business conflicts

increased further after the Trump administration asked China to cut its 375 billion dollar trade deficit with the US and focus over taking steps for protection of Intellectual Property Rights, technology transfer, and further access to American goods in Chinese markets.

What can happen on a broader sense.....

Now let's see how this tariff war can bear an impact on the global economy. First of all, need to re-pricing of the riskier assets will be an immediate concern. Secondly, it can lead to tighter financing conditions and finally result in a slower business growth globally. According to Moody's Investors Service, the Chinese advanced technology sector might be adversely affected, and a negative growth rate in China will result in curbing the growth rate of for the rest of Asia's export-dependent countries as well.

Necessary Facts and Figures......

Under current scenario, it becomes quite necessary to know the facts and figures for trade and investments between US and China in order to get further insight over the extent of risk associated with ongoing business rivalry between the two nations. China's business with the US is roughly $659.8 billion in total (two-way) goods trade in 2018. Exports total around $120.3 billion with nearly $539.5 billion worth imports. US goods trade deficit is roughly $419.2 billion.

Therefore China is the largest goods trading partner with the US. More than 9 million jobs got support through US exports of goods and services to China in 2015. Nearly 6 million jobs supported goods exports, and through export of services, more than 3 million jobs were supported. These data are the latest, as reported by the US Department of Commerce. China's exports and imports stood at $77.3 billion in 2018 (Estimated). Similarly exports totaled $58.9 billion with imports around $18.4 billion. The US services trade surplus was reported at $40.5 billion approximately.

Foreign Direct Inflows from US in China in 2017 was reported at $107.6 billion in 2017 – from 2016 a 10.6% increase. In China, Direct investment of US is involved in sectors like manufacturing, wholesale trade, finance and insurance. On the Other hand china's direct investment in the US is involved in manufacturing, real estate and depository institutions. In 2017, China's FDI in the US stood at $39.5 billion in 2017, down 2.3% year on year. Likewise US Goods and services trade with China in 2018 has been estimated at $737.1 billion in 2018. With exports totaling $179.3 billion, imports at $557.9 billion, therefore the deficit being $378.6 billion.

Global Trade growth expected to slow down....OECD Report

In a recently released OECD (Organisation for Economic Cooperation and Development) report, there is a risk of world GDP growth to slow from 3.5% last year to 3.2% this year – although may slightly recover 3.4% by next year. The risk lies mainly from the trade tensions. The Organization projected this year global trade growth at 2.1% this year. If true, then this shall be the lowest rate in a decade. Growth in last year is estimated at 3.9% and 5.5% in 2017.

As stated by the OECD the trade barriers imposed by the US and China last year had already starting to curb growth and increase inflation. The OECD estimated economic output in both countries to be 0.2%-0.3% lower by 2021, than it would otherwise have been. The US and Chinese GDP have been adversely affected by another 0.2%-0.3% because of additional tariffs announced earlier in May 2019. Since size of US and Chinese economies are significantly large and so is the influence, it can also result in bearing similar impact over growth of other economies of the world.

Is the situation really bad for India?

For Italy, a zero economic growth has been projected by the OECD for the current year. Similarly growth rate in Germany has been estimated lower by nearly 50% from last year to 0.7%. On the other hand Japanese growth is expected lower at 0.7%. India however seems to be a moderate beneficiary from the trade war. So, there is a “Silver Lining” for Indian business growth under prevailing situation. As per the UN Conference on Trade and Development (UNCTAD), few countries including India are expected to benefit from the ongoing trade tensions between the world's two leading economies.

As reported by the UNCTAD, members of the European Union may be the largest beneficiary, since exports in the group are likely to grow by $70 billion. Japan and Canada exports are estimated to enhance by more than $20 billion each. Similarly Vietnam may see exports growth of 5%, Australia 4.6%, Brazil 3.8%, Philippines 3.2%, with India's export growth being estimated at India 3.5% approximately.

Speaking in context to India, opportunity seems to emerge from Taiwanese market now. As understood from trade related reports, under given scenario, costs in China have escalated, thereby prompting Taiwan to initiate fresh deals from India, as the nation now sees India as the world's fastest growing emerging economy. Sources say that current trade volume between India and Taiwan is around $7 billion, and from China alone, Taiwan net trade is nearly $160 billion. So there exists a decent opportunity for Taiwan to shift a noticeable percentage of trade flows from China to India.

Net investment by companies from Taiwan in India has been $700 million in last 10 years as per reports. There has been a significant rise in investment by Taiwan in 2018, and there is indication by the companies to invest more in India. Currently, India's leading exports to Taiwan consists of mineral fuels, oil seeds, maize, iron and steel and organic chemicals. Likewise India is biggest importer of electrical machinery and equipment, plastic, machine tools and organic chemicals from Taiwan.

How will be the Agricultural Sector affected

The Agriculture sector continues to be one of the major contributors for India's economy, accounting for nearly 26% of India's gross domestic product. Agriculture in India produces several raw materials for industries, and ensures food security for the country. Therefore developments in Agriculture sector, and get proper insight over its prospect becomes very important in assessing the nation's economic prosperity.

As the business rivalry continues, lowering trade prospects of cotton and soybean between US and China is one of the situation, that will be an opportunity for Indian exporters to exploit going forward, since this situation places our country in a better position to come forward for fresh negotiations, and fill the expected gap (created due to a possible drop in export sales of U.S. Soybeans and cotton to China). Soybean in China finds use in making cooking oil and animal feed (soymeal which is the crushed product of soybean), and before the tariff war began (July 2018 onwards), the country accounted for 60 per cent of the U.S.'s $20 billion agricultural exports.

Cotton has been one of the top three contributors to India's exports to China, therefore against a higher tariff structure for US cotton exports, possibility to shift purchases to India has increased further (after the hike in May 2019). Even Mustard DOC exports by India to China will a feasible alternative in future, boosting mustard seed demand prospect ultimately.

Also, exports of Maize from India to Taiwan can improve considering that higher costs in China has prompted importers of Taiwan to seek purchases from India. Maize is one of the commodities that have a relatively large export share in Taiwan's export basket. Considering these inferences to be in line with the future expectations, demand prospects for soybean crushing and Mustard crushing (for producing soymeal and Mustard DOC respectively) shall improve, in addition to rise in export possibility of cotton and maize.

What happens when World Trade Organization intervention starts …….

There is question mark regarding WTO (World Trade Organization) to resolve this dispute in near term, since there is no indication till now as whether the matter will reach to the WTO. But what can happen if the matter does approach to the Organization in future. As seen historically, in case of trade disputes, the US generally wins, particularly against China, before the WTO. In the last 16 years, China has been challenged against any specific practices/policies 23 times in the WTO, and has won nineteen times, while with four cases is pending. Therefore all of the decided cases have been in favor of the US, till now, before the WTO. Therefore, possibility for US to see a favorable verdict remains higher this time as well. In fact the WTO probe indicated that China's agricultural subsidies were not consistent with WTO rules. As a result, it decided to uphold the US claims.

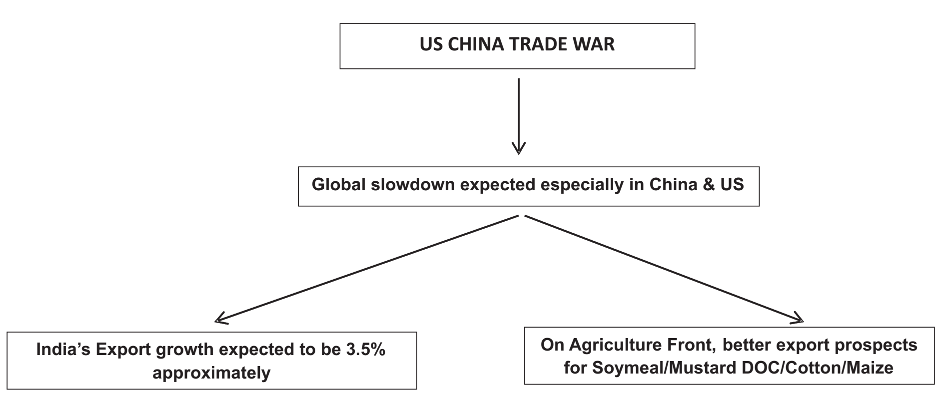
Future Scenario

Analysing the given facts and current situation we see an overall negative effect on Chinese exports, therefore slowing of its economy in longer run. In case the US eases the policies that the impact might be mitigated to some extent, since a rise in uncertainty over business prospects and weaker business sentiment has already seen private investment decisions. The OECD has projected a slowdown in growth in the US economy by 0.1 percentage point to 2.8% this year and slip to 2.3% next year. Chinese GDP on the other hand might be slower around 6.2% and 6% in the next two years as per the OECD.

As indicated by the UN Conference on Trade and Development (UNCTAD), few countries including India are expected to benefit from the ongoing trade tensions between the world's two leading economies, and India's export growth is estimated at India 3.5% approximately for the current year.

Therefore the Indian financial market is better placed for the overseas trade. If we are able to expand agricultural exports such as soybeans and cotton to China from the global trade war, then it will be advantageous in reducing trade deficit i.e. export-import gap to a great extent. For India, Export prospects of Mustard DOC to China and Maize to Taiwan also remains higher as discussed earlier. Therefore Indian financial market will be a moderate beneficiary from the global trade war, all in all.

The FLOW CHART SUMMARY FROM INDIAN CONTEXT



Physical Settlement of Base Metals Derivatives : Another step towards strengthening Indian Commodities Market

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Commodities are necessity of life, whether the food we eat, the car we drive, the house we live in or the business we do, commodities serve to coalesce all that happens in the world around us. Trading commodities is not new, it has its market place since the time of barter system, an old method of exchange that has been used for centuries and long before money was invented. The development of human race, quest for amelioration and financial engineering made it possible to open new avenues in the form of exchange traded commodity derivatives.

Unlike the western world, where first renowned commodity exchange formation took place nearly 170 years ago, Indian commodity exchanges were laid bound with fetters of regulations. Traditionally, commodity exchanges in India were product specific regional markets. To make headway, the Government of India issued notifications on April 1, 2003 permitting futures trading in commodities that set the foundation of a new era of nationwide platform for commodities derivatives. In 2003, MCX &

NCDEX were established as national commodity exchanges with multiproduct basket. Though a new formal commodities market structure in India was full of challenges, but the journey towards a vibrant market made possible manifold progression in a short span of time. The exchanges and regulators have been resolute to strengthen the market and deepen the activities with persistent endeavors. While recent developments such as introduction of options would broaden the product basket and empower the participants with more alternatives, permission to mutual funds to invest in commodity derivatives will increase the participation as well as liquidity in the market.

To proceed on its peregrination, the SEBI recently mandated commodity markets to move towards delivery-based contracts instead of the current cash settlement system of metals futures contracts. The MCX, India's pioneer commodities derivative exchange, a key platform for non-agricultural commodities derivatives in India, has recently introduced delivery-based settlement for most of the base metals.

What does this imply for participants and the market itself?

Well, on participants' side this means traders can ask for actual goods as against cash for closing the contract. This move would facilitate taming excessive speculation and volatility in the market and will make the system more transparent. Under physical settlement, traders will have to compulsorily take delivery of commodity on the expiry day against their derivative positions. To share an example, let's say Mr. X is having a short position in zinc futures. In case of cash settlement of zinc futures contract, the seller of the financial instrument, Mr. X would not deliver the actual underlying commodity upon expiration, but instead would transfer the related cash position. In other words, he would settle in cash by receiving or paying the difference as per the settlement price. Since the majority of small traders who are holding contracts for speculation would settle their positions before the physically settled contracts, it would curb excess volatility as the contract approaches the settlement date. Also, those who are not interested in delivery would shift their position few days before expiry which would narrow the spread, i.e. the basis risk associated with the rollover cost.

On the other side of coin, the new step would benefit the derivatives market by strengthening the structure with reliable means to cater to hedgers, institutions and corporates. It would be a great value addition to industry eco-system. Compulsory delivery mechanism would help to increase serious participation of those who are looking to hedge their commodity risk against the current practice of speculators driving the volumes. This would also be beneficial for traders who want to tap cash-carry arbitrage opportunities in the market.

Physical delivery is the hallmark of a competent futures market in commodities. The primary aim of physical settlement is to curb manipulation and safeguard the interests of the parties involved. The benefit of physical settlement could be seen on the overall market place as it can bring symmetry in prices due to the physical nature of the underlying asset, which otherwise in absence could lead to manipulation. This could be an image changing step for the commodity exchanges as it has long been argued that commodities trading promote speculation.

In a broader perspective, where world is looking at India as an engine of global economic growth in years to come, it is essential to develop a robust platform for commodities market that is an integral part of economic expansion. To make it happen, India needs to be a price setter in this segment as we as a nation possess a reputation of being the top consumer as well as top producer in a range of

commodities. As 21st century advocates a shift of power towards Asia, we need to mark our prints towards boosting marketplace structure through efficient domestic price discovery. It will be possible if delivery of goods is involved as it could promote local price pooling. At present, domestic bourses are price takers and have dependence on the US and European exchanges for price discovery that involves a hefty cost. In addition, domestic participants such as importers, exporters or local traders those are in serious business and require a platform for the same, stay distant due to the non-availability of local price as it involves currency risk. With the new mechanism, big Indian metal players can hedge their exposure in India and need not to go to international markets as commodities contracts are quoted in rupees that could ingest currency risk along with price volatility, driven by both international and domestic factors.

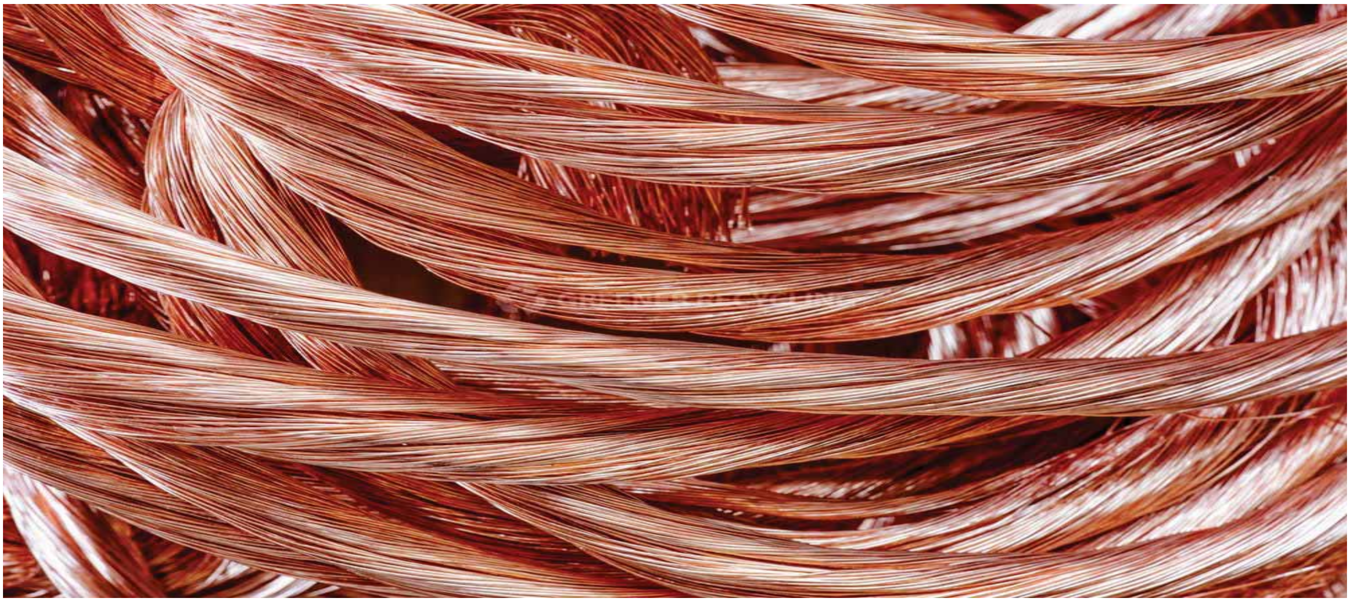
While government is making endeavors to set up e-mandis to create a unified national market for agricultural commodities, by entailing compulsory delivery in settlement, a substantial chunk of domestic metals trade could move to the exchange's platform that would aid to homogenize the business structure of the industry. Robust delivery system through the exchange platform will be a major step to integrate the physical and derivatives markets, facilitating efficient price discovery and better risk management. It would encourage and build confidence of buyers of metal on quality and time lines assurance through the exchange platform and is best suited for producers, importers, exporters and consumers alike, to hedge their physical market exposures, mitigate price volatility, while allowing them to focus on their business growth.

Compulsory delivery is the most preferred mechanism for final settlement on any commodity exchange. As we are underway in the process of new mechanism, an efficient system is required for physical delivery of goods to make it significant on the Indian exchanges and to make it at par with international counterparts. In an endeavor to achieve the same, role of exchanges would be vital. In much sense, exchange's primacy as an institution is to issue commandments, to ensure the seamless execution of trading & delivery of commodities. It includes efficient infrastructure, well organized and cost effective warehousing & location of delivery, standard quality & grade of metal, effective risk management and hassle free process.

Also, the exchange has to be vigilant so that large traders with large positions do not have an impact on the overall price movement that would encourage transparency and safeguard the interest of participants.

Last but not the least, it is crucial to make a strong ecosystem to encourage the process. At present, participation constitutes retail traders as majority, speculators & arbitragers, wholesale traders and an insubstantial volume of corporate hedgers. While the large chunk of speculators and small retail participants are not the part of delivery mechanism, most of the positions would be rollover or settled before expiry and wouldn't be available for delivery. By allowing institutions that have real business interest and need the facility to manage their inventory would not only deepen the market by liquidity and delivery volumes but also would lead to efficient price discovery that makes system credible, broader and more transparent in nature.

SEBI has already taken a step forward for institutional participation by allowing mutual fund custodians to offer custodial services for commodity derivatives. Also foreign companies having exposure to Indian commodities but no office here can take hedging exposures. Category III Alternate Investment Funds too have been permitted to participate in commodities derivatives market. This step will promote an attitude of inclusive advantage to participants, platform and to industry as a whole. While participation of institutions would strengthen the platform, institutions would be benefitted through availability of new asset class to invest. For instance, commodities derivatives can add a flavor of diversification across asset classes such as equities & debt to improve performance of mutual funds' portfolio or can act as a vehicle to hedge against equities that are prone to volatility risk of commodities such as metal sector or can act as a hedge by taking positions in gold as an inflation hedge in times of weakening currency or equities. While proceeding on the path, it would be appreciable to offer more products such as indices trading or ETFs and to lay down guidelines that facilitate more efficient risk management and hassle free process to encourage more participation. Also allowing more entities such as banks and FPIs in the markets will aid to make the platform more diversified and will bridge the vast difference of participation in terms of turnover, that is largely visible between equity and commodity exchanges.



Commodity Markets in India on the threshold of transformation

Jigar Trivedi
Fundamental Research Analyst
Anand Rathi

Worldwide, commodities are strong constituents of the primary sector of a country's economy. For decades, the commodity sector has contributed significantly to our economy. It still, however, is faced with several bottlenecks, one of those being the laws governing price discovery, leading to low price realisation by Indian farmers. More broadly, three of the biggest bottlenecks are storage, logistics and financing infrastructure.

Commodities are classified into two, agro and non-agro. Agro commodities are cereals & pulses, oilseeds, spices & the guar complex. Non-agricultural commodities are precious metals, ferrous and non-ferrous metals, and energy products. Each group of agricultural and non-agricultural commodities has its unique set of challenges, involving exploration, storage facilities and marketing. The base-metals segment generally includes a range of activities along various stages of the value chain, including mining, smelting, recycling, refining, processing and fabrication.

- Despite tech-savvy exchanges, not much has changed at the ground level. The physical sale of agro products is still administered by states, with each state promulgating its own regulations. Further, within each state there were several market areas and each had its Agricultural Produce Marketing Committee, which dictated regulations, fees, etc. This structure tends to compartmentalise markets and inhibit the free flow of commodities from one area to another. Besides, handling of commodities at many levels attracts multiple mandi charges, which in turn lead to price rises for consumers without benefits passed on to farmers.
- SEBI has implemented a slew of advancements in the commodity market space. These include allowing stock brokers to deal in commodity derivatives, common broking businesses for equities and commodities, permitting the NSE and BSE to bring commodity derivatives onto their trading platforms, introducing options contracts in commodities trading, permitting FPIs to participate in commodity derivatives contracts traded on stock exchanges subject to certain stipulations, allowing certain categories of foreign institutions to participate in domestic commodity derivatives, etc.
- SEBI, more recently, allowed exchanges to launch futures trading in commodity indices. This move will facilitate mutual fund and institutional participants on a commodity exchange. Such a move is a small step toward a giant leap for commodity market reform.
- To attract more and more participants in commodity derivatives, awareness programmes for various stakeholders such as

farmers, MSMEs and traders should be carried out focusing specially on the efficient use and benefits of the commodity derivatives market for risk management and price discovery.

- For greater participation, it is required that more hedging-centric products be launched in derivatives markets with greater institutional participation to infuse greater liquidity in far-month derivatives contracts.
- SEBI allowed Category-III alternative investment funds to trade in commodities. Also, foreign companies with exposure to Indian commodities not having operations in India have been allowed to trade. Further, SEBI has set out a consultation paper on the design of commodity indices in a bid to boost the derivatives market for such indices.
- In an effort to bring the Indian market in line with global markets, SEBI has directed commodity exchanges to align trading-lot sizes with delivery-lot sizes to remove barriers in physical delivery of commodities and adhere to global standards.

Thus, much brainstorming and developments are on-going among SEBI, exchange brokers and market participants to broaden this market.

Storage Infrastructure is crucial for the commodities market

Different categories of commodities require different storage practices. For example, grain, oil, soymeal, precious metals such as gold, petroleum products, base metals, etc. would require entirely different types of storage practices.

WDRA
Warehousing Development & Regulatory Authority

Besides the Central Warehousing and State Warehousing Corporations, which are public sector warehouse providers, there are many private operators in agricultural storage providing warehousing services throughout the country. These warehouses also store a large number of non-agricultural goods and have developed commodity-specific Standard Operating Procedures.

The Warehousing (Development and Regulation) Act, 2007, has been mandated to regulate warehouses storing goods and issuing Negotiable Warehouse Receipts. Regulatory frameworks are in place for both agricultural and non-agricultural commodities. However, to ensure stability in the market, WDRA is considering first stabilising the regulatory framework for agricultural commodities and then moving into the regulation of warehousing for non-agricultural commodities.

To ensure effective regulation through easier / faster registration of warehouses and a robust mechanism for surveillance, WDRA has put in place an online system of registration of warehouses as well as monitoring their regulatory compliance.

The Negotiable Warehouse Receipts issued to depositors (including farmers) against goods deposited in WDRA-registered warehouses can be pledged with a bank to avail of finance against the underlying goods warehoused.

Need for law to set up an electronic spot-market platform

In India, there is no specific central law to set up and regulate an all-India electronic spot market platform for agricultural or non-agricultural commodities. Thus, in the absence of any central law for the regulation of spot exchanges in commodities markets (whether agricultural or non-agricultural), the commodity spot exchanges/ platforms are required to be incorporated as normal companies under the provisions of The Companies Act, 1956.

Many ways to sell agro-commodities by farmers

There should be many ways of marketing farm products so that farmers can sell crops at competitive prices. Restriction on farmers to sell their crops only though recognised APMCs should be removed. The levy of fees by APMCs on goods sold should be restricted to those sold within the APMC market-yard, and such fees should be treated as service charges, not as a statutory tax.

With the above policy boost, it is expected that commodity stakeholders in India would optimally utilise the commodity sector, and design and execute better hedging practices. At the same time, to leverage this benefit fully, there is also the need to educate stakeholders, especially smaller operators such as those in India's micro, small and medium enterprises on the need and benefits of hedging.

Commodities : Golden Days Ahead

Veeresh Hiremath
Head - Commodity Research
Karvy

Commodity derivatives market has been progressing steadily since inception in 2003 and it is attracting the attention of investors, physical traders as well as corporate houses to hedge their price risk. The Government of India is also supporting development of commodity derivatives market. Since merger of Forward Markets Commission with Securities and Exchange Board of India on 28th September 2015, the regulator has been making all out effort in making commodity derivatives market more effective and efficient. After bringing the commodities under SEBI regulation, the definition of securities was amended with inclusion of commodity derivatives. With change in definition, the commodity derivative segment will enjoy the benefits of securities in a phased manner.

The prime objective of commodity derivative market is price discovery for actual buyers and sellers of the commodity. Though the market was most suitable for the farmers to hedge their price risk once the harvesting of crop is completed and avoid distress selling, the farmers were not active participants because of contract size. Being an agrarian country, the farm

holdings in India are small and fragmented. Because of this, the farmers grow multiple products in smaller quantities, which does not meet the contract size. In order to bring farmers into this platform, the Government of India has started a concept of Farmers Producing Organizations wherein farmers can pool their produce and participate in the derivative market. However, the expected results are not seen because of size of the contract and products available for trading. Hence, there is urgent need to introduce more products with more delivery centres and smaller contract sizes. Further, the compliance has to be eased making it easy for the farmers to enter into this market for price risk management. Under Price Support Scheme, the government procures essential agri commodities at Minimum Support Price (MSP) and our opinion is that this process has to be routed through commodity derivative exchanges wherein farmers can get maximum benefit and at the same, government agencies also have control over logistics, stocks and its disposal.

Despite being a large producer, consumer, importer and exporter of several commodities, India has been a price taker from international markets. This feature makes the domestic buyers and sellers of commodities derive their pricing from international market. Having a significant role in terms of consumption or supply of various commodities, the country finds its prime position for other nations who export to or import from India. Some countries are dependent on India to meet their consumption requirement of some commodities such as guar, mentha, spices. Similarly farmers in some countries produce commodities to feed the Indian population. Hence, these countries are exposed to price risks arising from demand-supply situation in India. In order to pave the way for foreign entities having their exposure to Indian market to hedge their price risk, an entry route is provided in the form of Eligible Foreign Entities (EFE). This will increase penetration into the Indian commodity derivatives market to scale up to global level. However, there are certain conditions for entry of EFEs, which have to be eased.

Entry of institutional participants such as banks and mutual funds shows the thrust of the government and the regulator for strengthening of commodity derivatives market. Though the pace of entry of institutions in this market is slow at the beginning it will increase momentum going forward. Further, the base metals, which were cash-settled contracts are converted into deliverable contracts. This mechanism makes robust system of price discovery for actual users of the base metals and price their purchase or sale based on domestic market rather than depending upon international benchmarks. The liquidity in the far months' contracts is the challenge for actual users of base metals, which needs to be addressed by the exchanges and regulator in concurrence with suppliers.

India is the second largest consumer of gold in the world after China. Price of the yellow metal is largely derived from international market rather than local factors, which makes domestic market most vulnerable to global factors. Moreover, there is no uniform pricing of gold in the country. Hence, the proposed gold policy will eliminate all these hurdles and make India one of the most sought gold hub in the world. With an entry of mutual funds, the investment in the gold will increase both physical and derivatives making robust price discovery mechanism for the market.

SEBI has notified 91 commodities for trading on derivatives market under Securities Contracts (Regulation) Act, 1956 (SCRA). However, approximately 30 commodities are available for trading thereby making scope for rest of the commodities. With the clear mandate for the NDA government for second term and keeping economic growth in mind, the commodity derivatives market will grow faster. India has been finding its prominence in the global commodity derivatives market wherein the country ranks in top 5 among various commodities in terms of volumes generated.

Volumes traded on Indian commodity exchanges have dropped significantly since 2013 from above Rs. 1 lakh crores per day in 2013 to Rs. 30,000 crores per day now for all exchanges put together because of higher cost of transaction in the form of CTT i.e Commodity Transaction Tax. Further, liquidity in the far months contract is another challenge wherein the hedgers are unable to take benefit of price movement in bullion, energy and metals contract. Though options are introduced in agri and non-agri commodities, the traction is not upto market except 2-3 commodities because of lack of knowledge about options trading among commodity investors as well as absence of options writers in these counters. Hence, there is need for a combined effort from the regulator, exchanges and broker members in spreading knowledge about options trading.

In the last three years, various innovations and developments have been introduced in the Indian commodity derivatives space, aiming to reach global standards. With these developments, the world is looking at India as most of countries are having business relation with India and one domestic market will help them to meet their requirements. The market is moving into a more efficient system of price discovery. Though there are challenges in some of the commodities in terms of liquidity and government intervention, the most suitable solution will evolve from the stakeholders. The Indian commodity derivatives market will surely see golden days ahead.

Crude Oil Update

Akhilesh Agarwal
Director
Acumen

Crude oil trading shows significant investor attraction in recent days as the price fluctuations have started increasing. Crude oil prices shows substantial improvement from January this year, when the WTI crude prices advanced to $66.60 from lows seen $42.36 in December 2018, as the consortium of major Crude oil producing countries OPEC and non-member producers including Russia have limited their oil output by 1.2 million barrels per day to prop up prices.

Recent attack against oil tankers in the middle east also caused an instant spike in crude oil prices due to fear of immediate supply cuts.

Tensions in the Middle East have escalated since U.S. President Donald Trump withdrew from a 2015 multinational nuclear pact with Iran and reimposed sanctions, notably targeting Tehran's key oil exports.

The market is looking towards OPEC & whether the world's major oil producers will prolong their supply cuts. The energy minister of the United Arab Emirates, Suhail bin Mohammed al-Mazroui, said earlier that OPEC members were close to reaching an agreement on continuing production cuts. Goldman Sachs said an uncertain macroeconomic outlook and volatile oil production from Iran and others could lead OPEC to roll over supply cuts.

Up until the middle of the 20th century, the United States was the largest producer of oil and controlled oil prices. In the years to follow, OPEC controlled the oil markets and prices for most of the latter part of the 20th century. However, with the discovery of shale in the U.S. and advances in drilling techniques, the U.S. has re-emerged as a top producer of oil.

As of 2018, OPEC controlled roughly 72% of the world's total crude oil reserves and produced 42% of the world's total crude oil output. However, the U.S. was the world's largest oil producing country in 2018 with more than 10 million barrels per day. Although OPEC still has the ability to drive prices, the U.S. has limited the cartel's pricing power by ramping up production whenever OPEC cuts their output.

World Crude Oil Production is at a current level of 82.39M barrels per day, while Global demand for crude oil (including biofuels) in 2019 is estimated at 100.6 million barrels per day.

Ongoing trade tensions between China and US and build up in US crude oil inventories indicate dragging global demand for crude oil. The IMF has put the cost of the conflict at 0.5 per cent of world GDP, but there might be more serious consequences ahead.

The World Bank has predicted that the global economic growth will ease to a weaker-than-expected 2.6% in 2019 before inching up to 2.7% in 2020. Growth in emerging markets and developing economies is expected to stabilize next year as some countries move past periods of financial strain, but economic momentum remains weak.

EIA (Energy Information Administration of US) in its latest report cut its forecast for global oil demand growth to roughly 1.2 million barrels per day in 2019, down from last month's projection of about 1.4 million bpd.

Meanwhile, The U.S.-China trade war has entered a dangerous new phase. Tariffs are up and there's the threat of more to come. A quick fix is still possible, with Presidents Donald Trump and Xi Jinping set to meet at the G-20 summit next month. But at this point, it looks more likely that the trade war will be long, messy—and expensive.

Importance of crude oil in economies

Crude oil is the most important commodity as it is the major source of energy around the world. Crude oil is a global commodity and its price derived mainly on the demand supply factors worldwide. Geopolitical tensions and supply controls by the producing nations groups generally affects crude oil prices.

Fluctuations in oil prices determine the size of fund flow between the consuming and producing countries. Increase or decrease of oil prices will affect the macro economic factors in major producing and consuming countries. For the exporting countries rise in prices will lead to the increase of national income. However the worst situation is seen mostly in oil consuming countries. The price increase generates higher inflation rate, increased input costs, reduced non-oil demand and lower investments. However, tax revenues fall and the budget deficit increases, due to rigidities in government expenditure, which also takes interest rates up. Another impacts of oil prices increase to mention is a deterioration on balance of payments, rising of national currency for oil importing country. Oil prices indirectly affect costs such as transportation, manufacturing, and heating. The increase in these costs can in turn affect the prices of a variety of goods and services, as producers may reflect production costs on to consumers.

The price of crude oil is the most significant factor determining the prices of petroleum products.

Variants

Two factors that determine the market value of a specific grade of crude oil are density (measured in American Petroleum Institute (API) gravity) and the sulphur content, respectively, which are representative of how light and sweet or sour the crude oil is.

West Texas Intermediate : A high-quality crude oil explored and physically traded in the U.S., West Texas Intermediate is one of the largest traded commodity in the world. The New York Mercantile Exchange (NYMEX Division of CME Group) is the primary exchange facilitating futures trade in this light sweet crude oil.

Brent Crude Oil : Crude oil from the North Sea, UK, Brent is a pricing benchmark for crude from Europe and Africa. Brent crude oil is the second most traded variety of crude in the world.

Crude oil futures

For a common man, the simple way to participate, make benefits out of the fluctuation in the crude oil price is an exposure to crude oil futures contract. Crude oil markets offer opportunities in nearly all market conditions but can be highly volatile. Several factors impact prices, directly (pipeline changes) or on a macroeconomic level (i.e., economic health, weather), making price risk management is critical. Crude oil futures offer direct exposure to the oil market, a key advantage over other ways to trade, whether looking to hedge risk or speculate on where oil prices are headed.

Forecast

WTI Crude oil futures showing a downward trend channel movement. On the down side prices may find support at $49.00 and $42.00 levels. Meanwhile if prices sustains above the $55.00 level may prove further upside movement if so prices can reach $58.00, 64.00 and 66.00 levels in the near future.


CRUDE OIL

Edible Oil Complex Outlook

Ritesh Kumar Sahu
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Angel Commodities Broking Pvt. Ltd.

Despite substantial hike in import duty on palm oil and soft oils during oil year 2017/18 (Nov-Oct), edible oil prices in the country did not increase to the extent of increase in import duty hikes. India is the world's biggest importer of edible oils and imports nearly 70-75% per cent of its requirements. Currently import duty on edible oil is highest in over a decade.

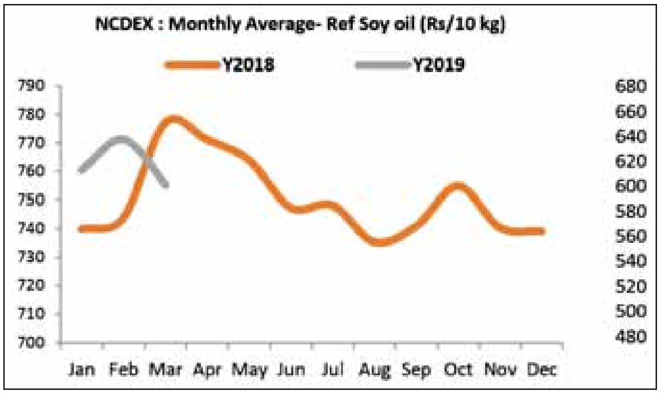
Last year, in March, import tax on crude palm oil was hiked to 44 percent while the tax on refined palm oil to 54 percent. Then in June, government increased the import duty on crude and refined soft edible oils such as soy oil, sunflower oil and rapeseed to 35 percent and 45 per cent respectively.

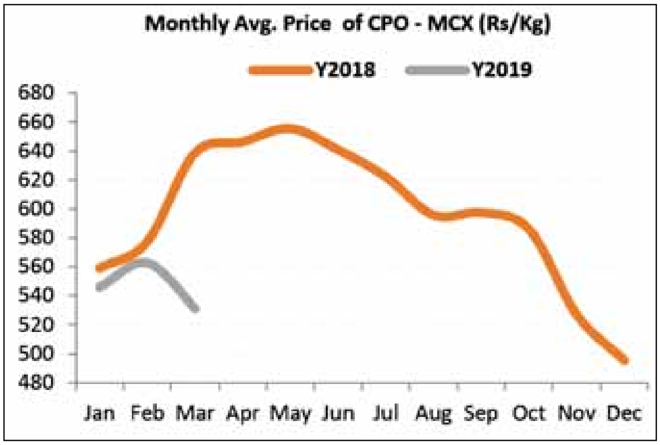
Despite steep hike in import duties, edible oil prices in the country showed negative trend last year. Crude palm oil (CPO) futures on Multi-Commodity Exchange (MCX) fell more than 21% while Refine Soy oil futures on National Commodities and Derivative Exchange (NCDEX) down by 4.7% during the second half of 2018.

Similarly, in the international markets, the soy oil prices on Chicago Board of Trade (CBOT) was down more than 16.7% in 2018 year while CPO futures in Malaysia plunged about 18%.

However, edible oil prices recovered in January 2019 due to surge in international prices of both Soy oil and CPO by about 10%. Prolonged dry weather in Brazil and wet weather in Argentina, the second and third largest soybean producing country along with reports of declining production and increase in bio diesel consumption by Malaysia and Indonesia supported International edible oil prices.

But again edible oil future edged lower during February and March due to increase in stocks at ports, steady demand, increasing imports of edible oil due to stronger rupees and higher crushing of Soybean and Mustard.

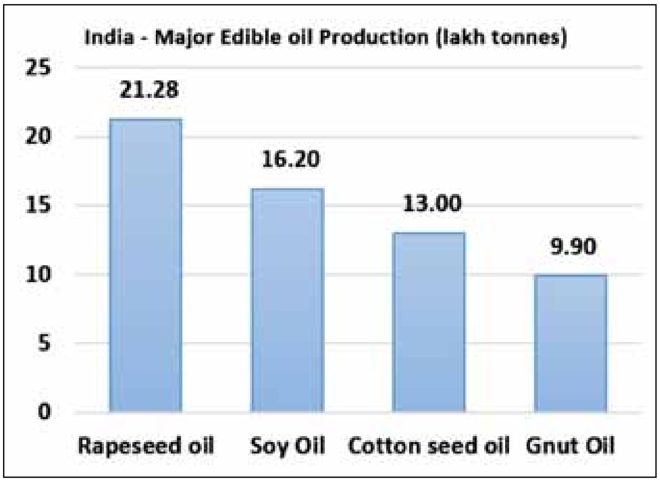


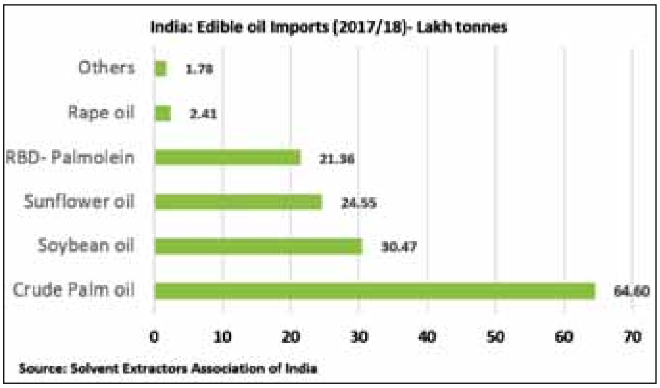


Edible Oil Production & Imports

Soybean, Rapeseed/Mustard and Groundnut are major oilseeds produced in the country. As per the government data, country is expected to produce over 400 lakh tonnes of oilseed including cottonseed in FY 2018/19. From domestic oilseed availability, country is expected to produce only about 60 lakh tonnes of edible oil domestically against the requirement of more than 230 lakh tonnes.

Thus, edible oil prices in the country depends on International prices of CPO and crude soy oil. India imports palm oil from Indonesia and Malaysia, soybean oil from Argentina and Brazil, sunflower oil from Ukraine and Russia and canola oil from Canada.



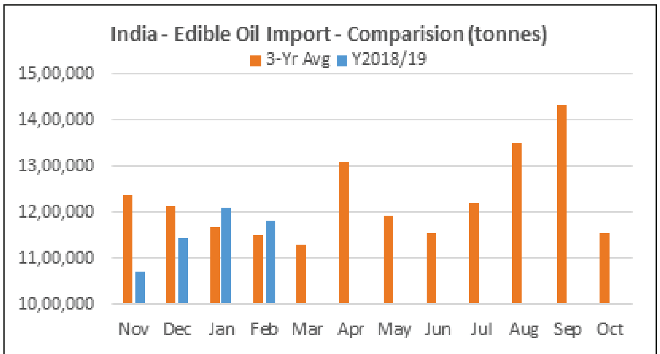


At present, CPO and refined palm oil attract import duty of 44% and 49.5% respectively if imported from Malaysia while 55% import duty is charged for RBD Palmolein from Indonesia. For other soft oils- refine grade attract 49.5% and crude grade attract 38.5% import duty.

As per monthly press released by Solvent Extractor's Association of India (SEA), import of edible oil during Feb 2019 is reported at 11.82 lakh tons (lt), up 5.1% on year. The overall imports of edible oils for Nov-Feb period is reported slightly lower by about 1% at 46.12 lakh tons compared to 46.55 lt last year.

CPO imports are almost at same levels as last year for Nov-Feb period at 23.80 lt but RBD palmolein imports are higher by 6.6% compared to last year mainly on reduction in duty difference.

For the first two months of 2019 (Jan-Feb), imports of refine palm oil increase by more than 15% on year while crude Soy oil imports jumped by 11.1% to 4 lt. However, Sunflower oil and rape oil, for Nov-Feb period, imports are down to 54% and 2% respectively for same period.

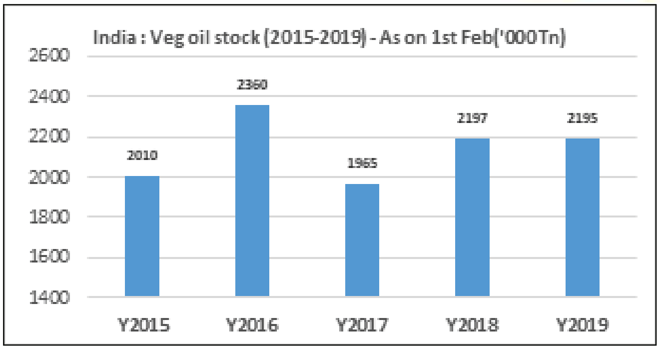


Source: Solvent extractors Association of India (SEA)

Edible oil imports during first two months (Jan-Feb) of 2019 higher compared to 3-year average imports as government cut import duties in crude and refine palm oil from southeast Asian countries. Moreover, stronger rupees and lower prices in the International market also supported higher imports. We have also seen rupee appreciated to 6-month high of 68.35 per dollar in March 2019 from the all-time high levels of 74.50 in October last year that has also reduce import cost on edible oil in the country.

Higher Stocks of edible oil

As per the latest monthly report by Solvent Extractors Association of India (SEA), total stock as on 1st March 2019 at ports and in pipelines is reported at record level of 21.95 lakh tonnes (lt), up by 85,000 tonnes on month. Stocks of edible oil at various ports estimated at 915,000 tons, up by 20% as compared to last year stocks. Moreover, the



stocks are higher by close to 30% if compared to 5-year average for the month of February.

However, stocks in pipeline is at 12,80,000 tons, down by 11% on y/y compared to 14,40,000 tons last year same period.

India's monthly requirement is about 19 lt and operates at 30 days' stock against which currently holding stock is equal to 35 days' requirements which is highest in last 4-months.

Outlook

Currently, edible oil prices have been correcting tracking weak prices of both CPO and Soy oil in the International markets. Moreover, higher oilseed production prospects in country and world in 2018/19 is also pressurizing prices.

Market expects that with lower tariff values and cheap imports available for refine palm oil due to duty difference, there will be ample supplies of palm oil in the country in the coming months. If we see the import seasonality, edible oil import in the country will gradually increase after March.

For the first week of April, Government tariff value on palm oil is down by about 20.5% while for crude soy oil it is lower by 12% on year. Tariff value is published by government every fortnight based on currency fluctuations and international prices to keep track on under invoicing by the importers.

Therefore going forward, the prices are likely to remain under pressure due to sufficient supplies from the domestic crushing and constant increase in imports due to lowering tariff values and a stronger rupee.

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Notes